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TAGS: ECON EFIN EUN

SUBJECT: The Lisbon Agenda: targets missed

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11. (SBU) Summary: The March 25/26 European Council confirmed that there is little news regarding the so-called Lisbon Agenda, which aims at making the EU the world's most dynamic and competitive economy by 2010. Lack of progress in meeting the Lisbon targets has been highlighted in structural indicators compiled by the EU Commission, which show that instead of catching up with the U.S., the EU has fallen even further behind. To a large extent, this can be ascribed to the member states, both with regard to slow implementation of EU directives and to insufficient reforms in areas that are exclusively their responsibility, such as labor market, tax or pension reform. The outlook is not encouraging. End summary.

Little news at Spring Council due to limited progress

12. (SBU) The March 25/26 European Council once again highlighted the lack of progress that has been made in meeting the targets of the Lisbon Agenda, which aims at making the EU the world's most dynamic and competitive economy by 2010. It is becoming increasingly clear that the EU is unlikely to achieve this goal. Instead of catching up with the U.S., it has fallen even further behind. The Council found that in order to reach the Lisbon target "the pace of reform needs to be significantly stepped up". It agreed that the critical issue is better implementation of commitments already made and identified "unacceptably high deficits in transposing agreed measures into national law. The credibility of the process requires stepping up the pace of reform at member state level." The Council focused on two key areas: Sustainable growth should be generated by sound macroeconomic policies, and measures to enhance competitiveness, such as the completion of the internal market, better regulation and higher rates of R&D investment. Measures suggested to create "more and better jobs" include reduction of non-wage labor costs, the promotion of flexible forms of work and higher investment in education and training.

13. (SBU) However, there are considerable doubts whether such statements will change much. Before the Council meeting, Commission President Romano Prodi stated that nothing much could be expected from this summit in terms of economic policies. He said that he is "almost embarrassed" to constantly repeat that it is high time to finally take the Lisbon Agenda seriously. In a letter to Council President Bertie Ahern, Prodi wrote that "We have to be honest and admit that the reform process has slowed down considerably." The President of the European Parliament, Pat Cox, commented that "in some respects there is little news as there has been such limited progress", and that the current lack of "deliverability" on Lisbon reforms could lead to a "credibility gap".

Commission report reveals that EU is falling behind

14. (SBU) In its progress report to the Spring Council, the Commission found that the EU "is still far from achieving the objectives set at the 2000 Lisbon European Council. Employment and productivity do not make a sufficient contribution to European growth." The main reasons for this, according to the Commission are the low employment rate of workers aged between 55 and 64, the inadequate take-up and use of information and communication technologies and the lack of investment in knowledge sectors (research innovation, education, training). Moreover, the internal

market is still too fragmented in terms of both services and intra-EU trade.

¶15. (SBU) The structural indicators compiled by the Commission show that the EU has not managed to catch up with the U.S. In 2003, GDP per capita was 39% higher in the U.S. than in the EU. While the difference has been reduced by three percentage points, the EU is still lagging far behind the U.S. The EU has also fallen back with regard to labor productivity growth, with an annual average of 1.8% in the U.S. between 1999 and 2003 and only 0.7% in the EU. The gap in labor productivity with the US has thus widened and accounts for 40% of the difference in GDP per capita. In 2002, the participation rate in the EU was 64.3%, clearly below the 67% target for 2005 and 70% in 2010 - and even further below the U.S. employment rate of 71.9%.

¶16. (SBU) In its progress report, the Commission identified three priorities for 2004: more investment in networks and knowledge, the reinforcement of industrial competitiveness and more measures to increase labor market participation, in particular of older workers.

Whose fault?

¶17. (SBU) The lion's share of the problem lies at the member state level. According to the Commission's progress report, "the performance of the member States in transposing the directives related to the Lisbon strategy area is . mediocre." Currently the share of transposed directives amounts to "an average of 58% across the Union".

¶18. (SBU) Moreover, there are many areas in which responsibility for reforms lies exclusively with the member states, such as labor market, pension or tax reform. According to competition Commissioner Mario Monti, the achievement of the Lisbon target "largely depends on factors which are outside the Community control," i.e. at the member state level. Clearly, member states' efforts have not been sufficient: The Commission finds that labor market reforms have been stepped up but appear insufficient to reach the employment targets. Similarly, despite significant progress in pension reforms, long-term sustainability of public finances is not yet secure in about half of the member states.

Outlook

¶19. (SBU) After the Spring summit, Council President Bertie Ahern stated that "the climate for delivering the Lisbon Agenda is better than at any time in the past four years". Ahead of the Lisbon mid-term review in spring 2005, the Council invited the Commission to establish a high-level group headed by Wim Kok, the former Dutch Prime Minister, to carry out an independent review (USEU septel). The group should prepare a report identifying measures which together form a consistent strategy to achieve the Lisbon objectives.

¶10. (SBU) Comment: It is unlikely that another report will produce much value added. Everybody knows very well what needs to be done, now it is high time to walk the talk. End comment.

¶11. (U) This cable has been coordinated with USEU.

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